

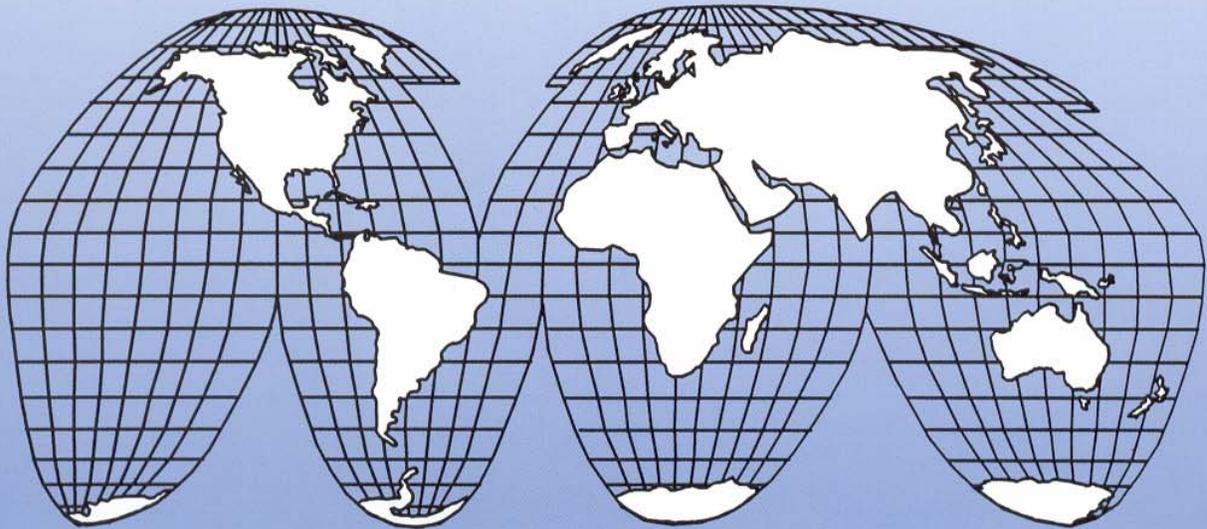
USAID

OFFICE OF INSPECTOR GENERAL

Audit of Regionalization Efforts in Latin America and the Caribbean

Audit Report No. 1-598-05-001-P

November 9, 2004



San Salvador, El Salvador



November 9, 2004

MEMORANDUM

FOR: LAC/EMT Director, Carla Royalty

FROM: RIG/SanSalvador, Steven H. Bernstein “/s/“

SUBJECT: Audit of Regionalization Efforts in Latin America and the Caribbean (Report No. 1-598-05-001-P)

This memorandum is our final report on the subject audit. In finalizing this report, we considered your comments on our draft report and have included your response in Appendix II.

This report contains seven recommendations for your action. Based on your comments, management decisions have been reached for these recommendations. Determination of final action will be made by the Bureau for Management’s Office of Management Planning and Innovation (M/MPI/MIC).

Once again, thank you for the cooperation and courtesy extended to my staff throughout the audit.

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Summary of Results

The Regional Inspector General/San Salvador conducted this audit to determine (1) what plans the Bureau for Latin America and the Caribbean (LAC) had for regionalization of support functions; (2) how the LAC Bureau made decisions related to regionalization of support functions; and (3) whether the LAC Bureau considered competitive sourcing in regionalizing its support functions in accordance with USAID policies and U.S. laws and regulations (page 6).

The LAC Bureau did not have a formal plan for regionalization of support functions (page 6).

The LAC Bureau made decisions related to regionalization of support functions based on the following factors: program size and complexity, volume and complexity of transactions, experience and quality of foreign service national staff, physical security of mission location, operating expense support costs, budget/cost savings, and quality-of-life indicators (page 11).

The LAC Bureau considered competitive sourcing in regionalizing its support functions in accordance with USAID policies and U.S. laws and regulations (page 14).

We made seven recommendations to address the items discussed in this report. We recommended that the LAC Bureau (1) develop a formal plan for regionalization and communicate the plan to the missions; (2) assign a team dedicated to the regionalization effort; (3) improve and regularize communications with the missions; (4) establish feedback mechanisms with the missions to measure effectiveness and efficiencies of regionalization; (5) prepare a comprehensive cost analysis in support of regionalization; (6) establish a process for monitoring all service agreements between the regional service centers and the client missions and ensure that service agreements are updated annually; and (7) establish a process for reviewing the staffing template and other cost savings at the missions (pages 7-11).

The LAC Bureau agreed with the findings and recommendations presented in this report (page 19).

Background

The Bureau for Latin America and the Caribbean (LAC), in an effort to find efficiency gains through changes in its work process, had been discussing regionalization of certain functions in the LAC region. The goal was to achieve efficiency without undermining the ability to achieve results and maintain adequate accountability. Support functions that may be regionalized included financial management, executive office management, legal advisory, and contracting. The competitive sourcing issue addressed by this audit was part of the President's Management Agenda.

This audit covered the beginning of the regionalization efforts in 1996 through the first day of fieldwork, June 21, 2004.

The LAC Bureau's fiscal year 2004 proposed budget was approximately \$80 million for regional activities that contribute to strategic objectives being implemented by various organizations.

Audit Objectives

As part of its fiscal year 2004 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions:

1. What plans did the Bureau for Latin America and the Caribbean have for regionalization of support functions?
2. How did the Bureau for Latin America and the Caribbean make decisions related to regionalization of support functions?
3. Did the Bureau for Latin America and the Caribbean consider competitive sourcing in regionalizing its support functions in accordance with USAID policies and U.S. laws and regulations?

Appendix I describes the audit's scope and methodology.

Audit Findings

What plans did the Bureau for Latin America and the Caribbean (LAC) have for regionalization of support functions?

The LAC Bureau did not have a formal plan for regionalization of support functions. In an effort to conserve scarce operating expense costs, beginning in 1996 the LAC Bureau had envisioned four regional service centers in the region - one in the Caribbean, one in Central America, and two in South America. A future vision of regionalization included reducing the two regional centers in South America to one. Although the LAC Bureau had been making efforts towards regionalization since 1996, it had never developed a formalized plan for regionalization of support functions. One of the causes of a lack of a formal plan was that no individual or group was dedicated to the regionalization process. Various individuals were responsible for various portions of the regionalization process, but no one individual or group was solely dedicated to this effort. Also, due to the lack of a formalized plan, the communication provided to the field missions lacked clarity and was distributed irregularly, no comprehensive cost analysis was performed to support the regionalization efforts, and no efforts were made to ensure that service agreements among the field missions were followed and carried out as stated in the agreements.

A Formal Plan Was Not Developed

The LAC Bureau had not prepared a formal plan for regionalization which included identification of key participants, identification of key risks and constraints, a complete timeline of estimated dates of implementation and completion of Phoenix, mission assessments and other major milestones, as well as documentation of the future staffing patterns for the field missions and a proposal of the functions to be regionalized.

Automated Directives System (ADS) 200.3.2.1 states that:

Managing for results means that we seek to define and organize our work around the end result we seek to accomplish. This means making intended results explicit; ensuring agreement among partners, customers, and stakeholders that proposed results are worthwhile; and organizing our day-to-day work and interactions to achieve results as effectively as possible.

The LAC Bureau was focused on immediate cost savings instead of proactively designing a strategy for meeting support needs. Also, there was no dedicated staff assigned for the regionalization efforts. Without a concrete plan, the LAC Bureau did not have a clearly defined goal of regionalization and would not be able to successfully coordinate and monitor the implementation of regionalization.

Recommendation No. 1: We recommend that the Bureau for Latin America and the Caribbean (a) develop a formal plan for regionalization that will include key participants, key risks and constraints, a complete timeline of estimated dates of implementation and completion of Phoenix, mission assessments, other major milestones, documentation of the future staffing patterns for the field missions and a proposal of the functions to be regionalized and (b) communicate the plan to the missions in the Latin America and Caribbean region.

Dedicated Staff Were Not Assigned

As noted above, ADS 200.3.2.1 states that “managing for results means that we organize our day-to-day work and interactions to achieve results as effectively as possible.”

Various individuals were responsible for various portions of the regionalization process, but no one individual or group was solely dedicated to this effort. Having a dedicated team with institutional knowledge will ensure that plans for regionalization are updated and communicated effectively to all interested parties at the LAC Bureau and at the missions. This team will be able to more effectively coordinate, plan, implement, and monitor the regionalization process. However,

such a team was not established because the LAC Bureau was focused on immediate cost savings instead of proactively designing a strategy for meeting support needs.

Recommendation No. 2: We recommend that the Bureau for Latin America and the Caribbean assign a team dedicated to the regionalization efforts.

Communication With Missions Could Be Improved

The LAC Bureau held various meetings with the mission directors and controllers to discuss the regionalization efforts; however, because the LAC Bureau lacked a formalized plan and a dedicated team assigned to these efforts, the information it provided to the missions lacked clarity, and was distributed irregularly, resulting in unclear expectations from the missions. The LAC Bureau was focused on immediate cost savings instead of focusing on actively communicating the regionalization efforts to the missions.

According to several controllers, executive and contracting officers, and legal advisors, few missions were made aware of the progress and plans towards regionalization of support functions. Missions' views of regionalization efforts were not consistent with that of the LAC Bureau. For example, two controllers in the LAC region indicated that the missions would not be affected by regionalization for several years. Also, the LAC Bureau considered Peru as the regional hub for Colombia, including providing financial management services. However, according to USAID/Colombia, the Mission was moving towards being self-sufficient in this area.

As noted on page 7, ADS 200.3.2.1 states that intended results should be explicit and interactions should be organized to achieve results as effectively as possible.

Regionalization was an on-going process with changes occurring frequently. The Bureau should focus on improving and regularizing communication with the missions. Specifically, the Bureau should receive progress updates from the missions on a regular basis and should establish feedback mechanisms to measure the effectiveness and efficiency of the regionalization efforts. Without regular and consistent communication with the field missions, expectations will be unclear, and the missions will not be able to successfully participate in the activities needed to regionalize. Furthermore, without commitment and cooperation from the missions, the changes needed will not be made successfully.

Recommendation No. 3: We recommend that the Bureau for Latin America and the Caribbean improve and regularize communications with the field missions by (a) sending regular updates to the missions regarding progress and plans made towards regionalization and expectations, if any, of the missions in implementing the regionalization plans and (b) receiving regular updates from the missions regarding the progress made towards the expectations defined by the Bureau in step a.

Recommendation No. 4: We recommend that the Bureau for Latin America and the Caribbean establish feedback mechanisms with the field missions to measure effectiveness and efficiencies of regionalization.

A Comprehensive Cost Analysis Was Not Prepared

One of the primary goals of regionalization was to reduce operating expense costs. Although the LAC Bureau held many discussions regarding the cost savings and reductions that would result from regionalization, it did not prepare a formal comprehensive documentation or analysis to show the cost reductions. No documentation was provided that indicated the number of staff that would be reduced and/or the dollar amounts that would be saved for the region as a result of regionalization. Moreover, some missions stated that no change in staff or cost savings had occurred over the years as a result of regionalization.

As noted on page 7, ADS 200.3.2.1 states that intended results should be explicit and ensure that proposed results are worthwhile to achieve results as effectively as possible.

The LAC Bureau reacted to immediate cost pressures thereby did not focus on preparing a comprehensive cost analysis. Furthermore, a formal plan was not developed and a dedicated staff was not assigned to focus on a comprehensive cost analysis of the overall regionalization efforts. Without such an analysis, the LAC Bureau is unable to support its efforts to regionalize to the mission directors and will be at a disadvantage in carrying out its objectives. Furthermore, without a comprehensive cost analysis, the LAC Bureau will not be able to monitor the effectiveness and efficiencies of the regionalization efforts.

Recommendation No. 5: We recommend that the Bureau for Latin America and the Caribbean prepare a comprehensive cost analysis for the Caribbean, Central America, and South America regions in support of its regionalization efforts.

Monitoring of Service Agreements Among Missions Was Needed

As noted on page 7, ADS 200.3.2.1 states that intended results should be explicit; ensuring agreement among partners, customers, and stakeholders that proposed results are worthwhile; and organizing our day-to-day work and interactions to achieve results as effectively as possible.

A review of the service agreements among missions for regionalization support services revealed that some agreements were dated in the year 2000 and were not being monitored by the LAC Bureau to ensure that expectations of each mission were being met.

Once the LAC Bureau determined that the missions should consolidate support functions, the missions determined which specific activities within the support functions to regionalize, the number of visits made to the client missions by the regional service centers, and how costs would be shared among the missions. These decisions were outlined and approved by the missions as part of the service agreements.

The LAC Bureau had expected that the agreements would be followed by the missions and therefore had not interfered. Also, because the regionalization efforts were not carefully thought out by the LAC Bureau as evidenced by the lack of a formal plan, it did not consider the monitoring of agreements among the missions as part of the regionalization process. To ensure that the missions cooperate and participate in the regionalization activities, the LAC Bureau should monitor these agreements. Such monitoring will also ensure that the missions clearly understand their expectations related to the functions to be regionalized, the number of visits, and how costs would be shared among the missions. Furthermore, due to the changing nature of mission programs and activities, service agreements should be updated annually. Also, it is important for the LAC Bureau to review the staffing template and other cost savings at the missions in order to effectively monitor the overall success of the regionalization process.

Recommendation No. 6: We recommend that the Bureau for Latin America and the Caribbean establish a process for monitoring all service agreements between the regional service centers and the client missions to ensure proper implementation of the regionalization plan and that the service agreements are updated annually.

Recommendation No. 7: We recommend that the Bureau for Latin America and the Caribbean establish a process for reviewing the staffing template and other cost savings at the missions to effectively monitor the overall success of regionalization.

How did the Bureau for Latin America and the Caribbean (LAC) make decisions related to regionalization of support functions?

The LAC Bureau made decisions related to regionalization of support functions based on the following factors:

- Program size and complexity – The amount of funding received as measured in annual dollars obligated, the number of strategic objectives, the number of management units, and the mix of funding sources at each mission were assessed to determine the most appropriate location for the regional service center.
- Volume and complexity of transactions – The volume and complexity of transactions were assessed to determine the feasibility of moving support functions without undermining the mission’s ability to achieve mission objectives.
- Experience and quality of foreign service national staff – The experience and quality of the foreign service national staff were assessed to determine the feasibility of moving support functions. The staff needed to have the skills and experience to handle the additional volume of transactions and also be able to provide proper support and advice to client missions.
- Security of mission location – The physical security of mission facilities was assessed to determine the most appropriate location for the regional service center.
- Operating expense support costs – Operating expense support costs were assessed to reveal the lower cost missions. These support costs included residential rents, residential utilities, residential and office security, foreign service national staff salaries and benefits, and total operating expense per capita U.S. direct hire.
- Budgets/costs – The cost of flights in and out of country, cost of temporary duty travel, cost of living, and cost of staff were considered in determining the location of the regional service center.
- Quality-of-life indicators – Quality-of-life indicators were assessed to determine which location would be preferable as the regional service center. These indicators included security in country, education, health

services, social and cultural life, convenience and reliability of transportation, and telecommunication facilities.

Although the LAC Bureau did not have a formalized plan for regionalization, it made progress towards regionalization by making decisions related to the location of the regional service centers based on the above factors. Nevertheless, these factors were not consistently applied to all the regional service centers, and, in the case of Central America, the location decision was made informally. Specific factors used for decisions on the regional service centers are discussed below for each regional service center selected. The regional service centers were the Dominican Republic for the Caribbean, El Salvador for Central America, and Peru and Bolivia for South America.

As discussed on page 6, a future vision of regionalization included reducing the two regional centers in South America to one. The basis for this decision has not been formalized.

Caribbean – In 1997, the Dominican Republic was designated as the regional service provider for Guyana, Haiti, and Jamaica, and provided services to the missions as follows:

Table 1: Support Functions Provided by the Dominican Republic

<u>Support Function</u>	<u>Country Services Provided¹</u>
Legal Advisory	Dominican Republic, Guyana, Haiti, Jamaica
Contracting	Dominican Republic, Guyana, Haiti, Jamaica
Executive Office	Dominican Republic, Guyana, Jamaica
Financial Management	Dominican Republic, Guyana, Haiti

The process for determining the regional service center in the Caribbean region involved numerous meetings with various participants and invited input from the Caribbean missions. Two missions, the Dominican Republic and Jamaica, emerged as the most likely candidates. Haiti was included in the initial framework but was eliminated as a viable option due to the political instability of the country, its poor infrastructure, and the difficulty in attracting people to the post.

The Dominican Republic was determined to be the better location for the regional service center for the following reasons: the foreign service national staff in the Dominican Republic were more qualified and less costly than that in Jamaica; the Dominican Republic was already providing services to Guyana, and the quality-

¹ Haiti and Jamaica receive limited legal advisory services and contracting support from the Dominican Republic.

of-life indicators reviewed were higher than those of Jamaica. Finally, most operating expense support costs were lower in the Dominican Republic than in Jamaica.

Central America – In 1996, El Salvador was designated as the regional service provider for Panama and Mexico and provided services to the missions as follows:

Table 2: Support Functions Provided by El Salvador

<u>Support Function</u>	<u>Country Services Provided</u>
Legal Advisory	El Salvador, Mexico, Panama, Honduras
Contracting	El Salvador, Mexico, Panama
Executive Office	El Salvador
Financial Management	El Salvador, Mexico, Panama

In this region, Guatemala, Honduras, and Nicaragua, remained as “stand alone” missions, but Nicaragua received legal advisory services from Guatemala, and contracting support from Honduras. El Salvador provides only legal advisory services to Honduras.

El Salvador was an obvious choice as the regional service center for the following reasons: the mission was located in a building on the Embassy compound that met all physical security standards; El Salvador was the transportation hub of Central America, allowing easy access to and from other countries in the region; and the experience and quality of the staff in El Salvador were considered high.

South America - Three options were considered for configuring the service network: (1) provide all support services from Peru, (2) provide all support services from Bolivia, and (3) provide services for Brazil and Paraguay from Bolivia, and services for Ecuador and Colombia from Peru. The third option was chosen in 1996, dividing the continent down the spine of the Andes for service delivery. Bolivia was designated as the regional center for Brazil and Paraguay and Peru as the regional center for Ecuador and Colombia. Support services provided were as follows:

Table 3: Support Functions Provided by Bolivia

<u>Support Function</u>	<u>Country Services Provided</u>
Legal Advisory	Bolivia, Brazil, Paraguay
Contracting	Bolivia, Brazil, Paraguay
Executive Office	Bolivia, Brazil, Paraguay
Financial Management	Bolivia, Brazil, Paraguay

Table 4: Support Functions Provided by Peru

<u>Support Function</u>	<u>Country Services Provided</u>
Legal Advisory	Peru, Ecuador, Colombia
Contracting	Peru, Ecuador
Executive Office	Peru, Ecuador
Financial Management	Peru, Ecuador, Colombia

Peru and Bolivia were designated as the regional service centers because of the size of their mission programs. In 1996, when the regionalization efforts began, Peru and Bolivia received more funding and had a greater number of strategic objectives than the other countries in the region. During that time, plans called for ending the program in Colombia and significantly reducing the program in Ecuador by the end of 1999 and 2000, respectively.

Did the Bureau for Latin America and the Caribbean (LAC) consider competitive sourcing in regionalizing its support functions in accordance with USAID policies and U.S. laws and regulations?

The LAC Bureau considered competitive sourcing in regionalizing its support functions in accordance with USAID policies and U.S. laws and regulations.

Competitive sourcing was one of five government-wide initiatives in the President’s Management Agenda, a plan to reform the Federal government by making it citizen-centered, results-oriented, and market-based. Competitions were held in which the costs and overall value of services were compared among private sector and Federal government providers. Winners were selected based on who could deliver the best services at the best value for the American taxpayer, regardless of the provider.

The Office of Management and Budget (OMB) Circular A-76 “Performance of Commercial Activities,” states that the long standing policy of the Federal government has been to rely on the private sector for needed commercial services. To ensure that the American people receive maximum value for their tax dollars, commercial activities should be subject to the forces of competition. Accordingly, agencies shall use this circular as a guide for the public-private competition process. The competition process is a method for comparing the value of performing a function outside the Government (private, non-profit, or other). Competition through the A-76 process establishes the best way to deliver services for the least cost.

The Federal Activities Inventory Reform (FAIR) Act of 1998 requires the head of each executive agency to submit to OMB by June 30 of each year a list of commercial activities and inherently governmental activities their agency

performs. The head of the agency must review the list and decide which activities will be subject to competition under the guidance of OMB Circular A-76.

According to the ADS 104.2.C, “Performance of Commercial Activities,” USAID “Heads of Bureaus implement OMB A-76 provisions within their areas of responsibility; identify in-house functions for review; and assess the application of OMB A-76 when considering an organization change.”

USAID recognized that competitive sourcing could be a highly effective management tool to improve organizational performance and was implementing a Competitive Sourcing Program that evaluated commercial activities for competition.

Beginning in November 2002, USAID worked to establish a Competitive Program. This work included:

- Developing the 2003 FAIR Act and inherently governmental inventories to serve as a baseline for identifying competition candidates;
- Engaging experienced consultants to assist with the implementation and execution of the competitive-sourcing program; and
- Conducting an independent assessment of the FAIR Act and inherently governmental inventories to validate classification as inherently governmental and application of reason codes to commercial activities;

On June 30 of each year, all USAID Bureaus must submit an inventory datasheet to the Bureau for Management, Office of Human Resources, Policy, Planning, and Information Management Division.

The LAC Bureau inventoried its commercial activities and inherently governmental functions in accordance with OMB policy and guidelines. The 2003 FAIR Act and inherently governmental inventories were used for the nomination of candidates.

The inventory summary for fiscal year 2003, which was submitted to OMB by June 30, 2004, included the following for the LAC Bureau:

Table 5: Inventory Summary

<u>Inventory Status</u>	<u>FY 2003 Inventory</u>	<u>Percentage of Total FTE</u>
Total Commercial Activities Full Time Equivalent (FTE)	10	5%
Total Inherently Governmental FTE	188	95%
Total FTE	198	100%

Of the ten commercial positions identified in the fiscal year 2003 inventory in the LAC Bureau, five were exempt from competition. For the other five, the USAID Administrator determined that the disruption associated with competing those small numbers, which revealed small competition groupings, would be unacceptable at that time. Justifications for exempting competition and for inherently governmental positions were prepared by the LAC Bureau.

For regionalization purposes, according to the Assistant Competitive Sourcing Official, all U.S. direct hire positions in the missions are in the Foreign Service. As such, all Foreign Service designated positions, in accordance with sections 101, 103, and 104 of the Foreign Service Act of 1980, must be in the career service and are inherently governmental in nature.

The 188 inherently governmental positions identified in the LAC Bureau represented U.S. direct hire positions in the Foreign Service and positions in the civil service that were inappropriate for anyone outside the government to perform.

Evaluation of Management Comments

The Bureau for Latin America and the Caribbean (LAC) agreed with the findings and recommendations presented in this report. Accordingly, management decisions were made for the recommendations. The LAC Bureau's comments are included in their entirety in Appendix II.

Determination of final action will be made by the Bureau for Management's Office of Management Planning and Innovation (M/MPI/MIC).

**Scope and
Methodology****Scope**

The Regional Inspector General/San Salvador audited the regionalization efforts in Latin America and the Caribbean (LAC) in accordance with generally accepted government auditing standards at USAID/Washington from June 21, 2004 to July 9, 2004. Additional fieldwork was conducted in El Salvador through July 14, 2004.

The audit focused on (1) what plans the LAC Bureau had for regionalization of support functions; (2) how the LAC Bureau made decisions related to regionalization of support functions; and (3) whether the LAC Bureau considered competitive sourcing in regionalizing its support functions in accordance with USAID policies and U.S. laws and regulations.

In conducting our audit, we did not assess the effectiveness of the Bureau for Latin America and the Caribbean's internal controls.

For objectives one and two, the audit covered all decisions made and plans made from the inception of the regionalization plan in 1996 to the date of fieldwork, June 21, 2004.

For objective three, the audit covered the most recent inventory report conducted for fiscal year 2003 and submitted in June 2004.

Methodology

To answer audit objectives one and two, we interviewed the Administrative Management Officer, Contracting Officer, and Controller in the LAC Bureau, as well as sent out a questionnaire for all the controllers, contracting officers, legal advisors, and executive officers in the LAC region. We reviewed emails, discussions, reports, mission management assessments, and other relevant documentation.

To answer audit objective three, we interviewed the Assistant Competitive Sourcing Officer and his staff, and reviewed the inventory data input for the LAC Bureau for 2003.

For objectives one and two, we did not express an opinion as both objectives were descriptive in nature.

In determining the significance of our findings, we applied the following criteria for issuing an opinion to objective three:

A positive opinion would be issued if the LAC Bureau performed the inventory data inputs for 2003 in accordance with OMB-76, the FAIR Act of 1988, and ADS 104.

A negative opinion would be issued if the LAC Bureau did not prepare the inventory data inputs for 2003 in accordance with OMB-76, the FAIR Act of 1988, and ADS 104.

**Management
Comments**

October 27, 2004

MEMORANDUM

FOR: RIG/San Salvador, Steven H. Bernstein

FROM: AA/LAC-EMT, Carla M. Royalty

SUBJECT: Response to Audit of Regionalization Efforts in Latin American and the Caribbean
(Report No. 1-598-04-00X-P)

Thank you for the opportunity to provide comments to the draft report on the subject audit and the seven recommendations contained in the report. The Bureau appreciates the efforts of your team to provide us with constructive information as we continue our regionalization efforts in the Hemisphere. Our response to the draft report recommendations is as follows:

Recommendation #1: Develop a formal plan for regionalization and communicate the plan to the field missions.

The Bureau agrees with the recommendation, particularly the need to insure that the plan is communicated to the field missions. However, the Bureau does note that its regionalization efforts, which began in the mid 1990's, has been an ongoing process which has been subjected to changes in USG foreign policy priorities, program requirements, country context where we have a presence, funding constraints and declining resources, as well as changes in key participants in the regionalization effort. Therefore, while we agree with the need to formalize a Bureau plan, it must be done in a way to provide flexibility where needed, particularly where the Bureau does not have control over the timing of actual implementation (i.e. completion of Phoenix), and other aforementioned factors. As the Bureau moves forward with its plans to consolidate regional platforms, particularly in South America, we will follow the audit recommendation to develop a formal plan with identification of key participants, key risks and constraints and a complete timeline of estimated dates of implementation and completion of Phoenix, mission assessments and other major milestones. We will be initiating this recommendation with the upcoming regionalization conference in La Paz, Bolivia in December 2004. Target date for completion: End of Fiscal Year 2005.

Recommendation #2: Assign a team dedicated to regionalization efforts.

The Bureau agrees with the recommendation contingent upon assignment of additional Agency ceiling. LAC has already begun its efforts to create a unit that will report to the Front Office that will be responsible for: a) ensuring that plans for regionalization are updated and communicated effectively with the field and with other appropriate parties both within and outside of the Bureau; and b) coordinating, implementing and monitoring the regionalization and Mission Management Assessment

processes. The Bureau will begin recruitment and assignment of staff to this function beginning early FY 2005, assuming that additional staff ceiling can be obtained by the Agency. Target date for completion: June 2005

Recommendations #3 and #4: Improve and regularize communications with field missions and establish feedback mechanisms with the field missions to measure effectiveness and efficiencies of regionalization.

The Bureau agrees with both recommendations. This is an ongoing effort and will be a mandated function for the new organizational unit dedicated to regionalization in LAC. Target date for completion: Continuous

Recommendation #5: Prepare a comprehensive cost analysis in support of regionalization.

The Bureau agrees with this recommendation, and has already taken action in this regard with its regionalization efforts in South America. The Bureau's Mission Management Assessment Team recently completed an updated comprehensive analysis in support of its study of regional platforms in South America, which not only includes a comprehensive cost analysis, but also takes into consideration other major factors, including security, quality of life indicators, travel availability between servicing and client missions, quality of internet connectivity and telecommunications systems, and U.S. foreign policy interests. The Bureau does note however, that in a post 9/11 environment, security concerns may outweigh cost concerns. Additionally, the lack of experienced, skilled management support officers (i.e., controllers, contracts officers, executive officers and regional legal advisors) and the need to reduce management vulnerabilities are major considerations in regionalizing support services. Although one of the primary goals of regionalization has been to reduce operating expense costs, the other aforementioned factors will continue to be significant in determining future regionalization efforts. A comprehensive analysis for support services in Caribbean will occur in FY '05, and in Central America following the completion of the transition of support services to the regional platform in El Salvador in FY'06. Target date for completion: End of FY '06.

Recommendation #6: Establish a process for monitoring all service agreements between the regional service centers and the client missions and ensure that service agreements are updated annually.

The Bureau agrees with this recommendation. This function will be a joint effort between the field missions and the LAC Bureau's regionalization unit. Efforts to review and update existing agreements are already underway in the field missions, starting with USAID/Bolivia, and the Bureau will be present at the upcoming regional management support conference in December. While monitoring service agreements will be a function of the new regionalization unite, the Bureau will plan annual regional management support conferences in which agreements will formally reviewed and updated. Target date for completion: End of CY '05.

Recommendation #7: Establish a process for reviewing the staffing template and other cost savings at the field missions.

Appendix II

The Bureau agrees with this recommendation, but notes that the Agency's staffing template was just established and implemented in FY'03 and will be generating new staffing levels every two years. Additionally, since the inception of the Template, the Agency received authorization for an additional 85 overseas USDH slots to be used to hire Foreign Service Limited Appointees. This additional appointing authority will also be factored into the review process. The Bureau has developed staffing plans to be in compliance with the current template levels by the end of FY'05 and is now conducting a review of the FY'04 staffing actions for each field mission. The review of the staffing template and other cost savings at the field missions will be part of the regionalization unit's mandate and will also be included in the Bureau's ongoing Mission Management Assessment efforts. Target date for completion: Continuous